

SEC BRIEFING

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THE OUTLOOK FOR THE NEW BRAZILIAN GOVERNMENT

The military ouster and dramatic suicide on 24 August of Brazil's President Getúlio Vargas climaxed three and half years of steadily deteriorating economic and political conditions in Brazil. The demagogic tactics of Vargas himself were a major cause of this deterioration. (See Appendix: The Problems Left by Vargas)

The new cabinet of President Joao Café Filho is competent and experienced. It is basically non-political, conservative and pro-US. However, it is faced with a number of critical problems.

The country is suffering from severe and increasing inflation and from a foreign exchange crisis. Furthermore, there will be national and state elections on 3 October. No party now has a majority in the congress and President Café's party is a poor fourth.

Vigorous left-wing attacks on the new government have already commenced, based on Vargas' farewell letter. This letter strongly implied that American financial interests were among the "vultures" preying on Brazilian workers and seeking to oust Vargas as the working man's protector.

The Communists plan a series of strikes, reportedly to begin on 2 September in key industrial centers. They are calling for a price freeze and further inflationary wage increases. In addition, they are reported planning to base all future propaganda on the assertion that Vargas' ouster was "an American coup d'état."

The Communist Party has already inspired riots against American diplomatic installations and business property.

The Labor Party, created by Vargas, has also denounced the new government. It controls nearly a fifth of the seats in congress. The Labor Party had already been campaigning for the October elections on the theme that foreign capital, and not Brazil's internal difficulties, is responsible for the country's economic ills.

There have also been attacks on the Café Filho administration from more conservative quarters. Vargas' formerly powerful war minister, General Zenobio da Costa, implied in a radio address on 27 August that the new government is unconstitutional and that Café Filho acted immorally in facilitating the removal of Vargas.

There are, however, several major stabilizing forces, which seem capable of controlling the situation at least for the present. These include the new air minister, General Eduardo Gomes, who also heads the country's second largest party. Also crucial is the conservative army leadership which has already started purging pro-Communist officers. Lastly, there is President Café Filho, himself, who has, throughout his long political career, cultivated a reputation as a friend of the working man.

Appendix -- The Problems Left by Vargas

- I. The Brazilian economy, though basically workable, has suffered from growing pains for some time.
 - A. These pains have been aggravated since 1951 under the Vargas government which encouraged an atmosphere of administrative confusion and political dickering on economic problems.
 - B. The periodically desperate foreign exchange crises have resulted in part from over-priced exports and from the need to spend over a quarter of a billion annually for oil imports.
 1. Explorations made earlier by Standard Oil indicated that Brazil has immense oil reserves. However, Brazil itself is incapable of developing them.
 2. Under Vargas, a government oil-producing monopoly, Petrobras, was set up to "protect" the country from the "ravages" of foreign oil companies.
 - C. During the spring and summer of 1954, sagging coffee sales also caused a foreign exchange crisis. Coffee accounts for up to three quarters of Brazil's foreign exchange.
 1. Coffee sales had sagged not only because of seasonal factors but because Brazil insisted on maximum prices. In June a floor of 87 cents a

pound was established for coffee exports, causing a further slump in sales. This floor was established in the name of protecting Brazil from foreign pressures.

2. A government subsidy, decreed on 14 August, has eased the situation somewhat.
3. The coffee crisis, however, virtually wiped out the gains made earlier in the year through good coffee income and strict import controls.
- D. Other potentially important sources of foreign exchange have been blocked by high production costs which price the products out of the market.
 1. Iron ore is a primary example. The current Brazilian price is roughly three times that being offered for ore in the United States. It is being met chiefly by Soviet orbit buyers.
 2. Inflation was also severe under Vargas.
 1. This situation forced further inflationary moves by Vargas including a new minimum wage law, almost doubling the previous minimum. The law was upheld by the Supreme Court on 5 July.
- II. Vargas' political methods were designed to create political confusion and to perpetuate the myth of the "indispensable man" and "great humanitarian."

- A. His divide-and-rule tactics facilitated graft and corruption and led his underlings to irresponsible behavior culminating in the numerous "scandals" that marked his regime.
- B. He virtually immobilized his cabinet and the civil service in order to prevent leadership competitive with his.
- C. By playing both ends against the middle, he was able to manipulate, in one way or another, almost all of the political parties, including those whose leaders opposed him. In this way, he helped deter the development of statesmanlike party leaders who could have found solutions to some of Brazil's problems.
- D. He not only tolerated Communist infiltration of the foreign ministry and the labor ministry but brought in as his labor minister the Communist-oriented Labor Party chief, Joao Goulart.
 1. Goulart attempted, probably with Vargas' concurrence, to build the Labor Party into a strong government machine through striking deals with the unions of the outlawed Communist Party.
- E. Under these circumstances the Communist Party, though outlawed since 1947 continued to grow--doubling itself during the past 18 months to its present strength of about 110,000. It is the largest and wealthiest Communist party in Latin America.